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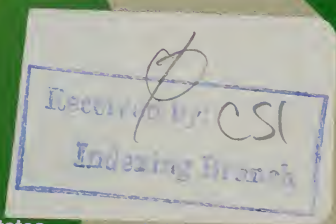
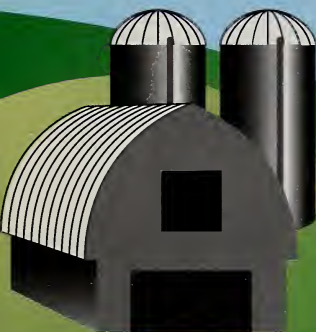
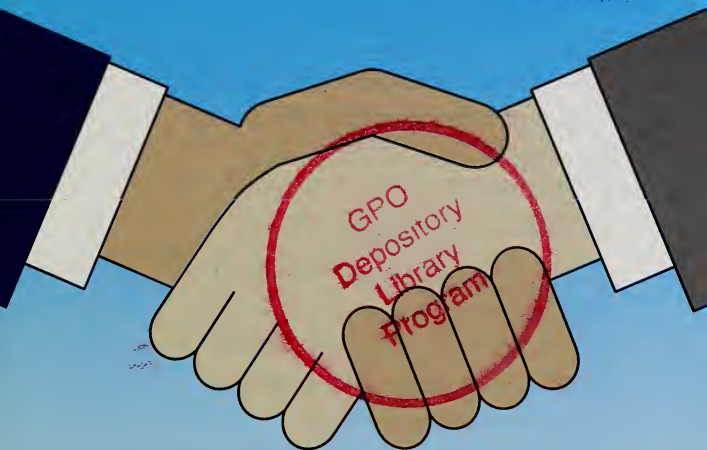
Farm Service Agency

Lender's Guide to FSA Loan Programs

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Lender's Guide to Farm Service Agency Loan Programs

The Farm Service Agency (FSA) may guarantee loans that eligible agricultural lenders make to family farmers and ranchers for farm ownership, improvements, and operating purposes.

Guaranteed loans are made and serviced by legally organized private lending institutions, such as commercial banks, Farm Credit Associations, insurance companies, and savings and loan associations. FSA provides you with a guarantee covering up to 95 percent of any loss of principal and interest on a loan. The use of an FSA guarantee helps you to serve, or continue with, a farmer who cannot be served on a conventional basis due to risk factors.

To find out how our programs can work for you, just give us a call or stop in at your local FSA or USDA Service Center office. We have offices in many agricultural counties nationwide, staffed with people who can assist you in your credit needs. Look under *U.S. Department of Agriculture, Farm Service Agency*, in your local telephone directory. In some cases, you may still find us listed under the former Farmers Home Administration (FmHA) or Agricultural Stabilization and Conservation Service (ASCS).



FSA Loan Programs

Under the Guaranteed Loan program, FSA provides loan guarantees to lenders who make farm loans to eligible applicants who operate family-size farms. You may sell the guaranteed portion of the loan to a third party, or retain the loan as part of your own portfolio. Loans must meet certain qualifying criteria to be eligible for guarantees, and FSA will monitor your loan servicing. Farmers interested in Guaranteed Loans should apply directly with a conventional lender, who then arranges for the guarantee.

For those farmers or ranchers unable to qualify for a Guaranteed Loan, FSA also offers Direct Loans which are made and serviced by FSA officials. Funding for Direct Loans is more limited, and applicants sometimes must wait until funds are available. To qualify for a Direct Farm Ownership or Operating Loan, the applicant must have sufficient repayment ability and loan collateral. We will work with loan applicants to analyze the situation, provide technical assistance, and tailor loans to meet their needs. FSA's loan programs include:

Direct Loan Programs

Farm Ownership Loans (FO)
 ■ Regular
 ■ Limited Resource
 ■ Beginning Farmer
 Downpayment Program

Farm Operating Loans (OL)
 ■ Regular
 ■ Limited Resource

Emergency Loans

Youth Loans

Indian Land Acquisition Loans

Guaranteed Loan Programs

Farm Ownership Loans (FO)
 ■ Regular

Farm Operating Loans (OL)
 ■ Regular
 ■ Interest Assistance

Farm Ownership Loans Used to buy, develop, or expand a farm

Beginning Farmer Downpayment Program Assists beginning farmers and ranchers to purchase a farm or ranch

Farm Operating Loans Used for operating expenses, family subsistence, machinery, livestock, and refinancing of debt

Emergency Loss Loans Used for disaster relief

Youth Loans Helps youth sponsored by a project advisor, i.e., 4-H club advisor

Indian Land Acquisition Loans Enables Indian tribes to purchase privately held lands that lie within their reservations

What Are the Types of Guarantees?

There are two types of guarantees, the Loan Note Guarantee and the Contract of Guarantee.

The Loan Note Guarantee is a document issued by FSA setting forth the terms and conditions of the guarantee of a fixed loan amount. The Loan Note Guarantee may be used as the instrument of guarantee in all loan programs and is readily saleable in the secondary market. Holders (investors) of the Loan Note Guarantee are protected by the full faith and credit of the U.S. Government.

The Contract of Guarantee is the document issued by FSA setting forth the terms and conditions of a revolving line of credit. The Contract of Guarantee (line of credit) is used for specific operating loan purposes only and may not be sold in the secondary market.

How May Loan Funds Be Used?

Farm Ownership Loans

Farm Ownership (FO) Loans may be made to purchase farmland, construct or repair buildings and other fixtures, develop farmland to promote soil and water conservation, or refinance debt.

Operating Loans

Operating Loans (OL) may be used to purchase items needed for a successful farm operation. These items include livestock, farm equipment, feed, seed, fuel, farm chemicals, repairs, insurance and other operating expenses. Under certain conditions, OL's may be used to refinance debts.



What Is the Maximum Loan Size?

FSA can guarantee OL's of up to \$400,000 and FO loans up to \$300,000.

What Is Available for Beginning Farmer and Rancher Loans

FSA provides direct and guaranteed loan assistance for beginning farmers and ranchers who are unable to obtain financing from commercial credit sources. In addition, FSA has a special Downpayment Farm Ownership Loan Program to assist beginning farmers and ranchers who are entering agriculture to purchase a farm or ranch. This program also provides a way for retiring farmers to transfer their land to a future generation of farmers and ranchers.

The program works like this:

- An applicant must make a cash downpayment of at least 10 percent of the purchase price.
- FSA may finance 30 percent of the purchase price or appraised value, whichever is less. The term of the loan is for 10 years at a fixed interest rate (currently 4 percent).
- The remaining balance, not to exceed 60 percent of the purchase price, may be obtained from a commercial lender or a private party. FSA can provide up to a 95 percent guarantee if financing is obtained from an eligible commercial lender.
- The purchase price or appraised value, whichever is lower, may not exceed \$250,000.

Who May Borrow Under the Guarantee Program?

To qualify for an FSA Guarantee, a loan applicant must:

- have sufficient education, training, or experience in managing and operating a farm or ranch which indicates the managerial ability needed to succeed in farming;
- be a citizen of the United States (or legal resident alien), which includes Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, and certain former Pacific Trust Territories;
- have the legal capacity to incur the obligations of the loan;
- be unable to obtain sufficient credit elsewhere at reasonable rates and terms to finance needs;
- For an OL, the applicant must be the operator of a family farm after the loan is closed. For an FO loan, the applicant needs to also own the farm.
- have not had a previous Direct or Guaranteed Loan which resulted in a loss to FSA and not be delinquent on any Federal debt.

Corporations, cooperatives, joint operations, and partnerships must meet these same eligibility requirements, and the entity must also be authorized to operate a farm or ranch in the State where the land is located.

In addition, the loan programs contain limitations on the length of time the loan applicant has operated a farm or borrowed from FSA. Contact your local FSA office for more details.



What Other Criteria Does FSA Consider?

In addition to meeting the eligibility criteria, the loan applicant must have a satisfactory credit history, demonstrate repayment ability, and provide sufficient security for the loan.

If My Customer Qualifies, What Next?

FSA will normally go through the following steps to process your application for guarantee:

1. The producer and lender complete the guaranteed application and submit it to FSA. (FSA will help you complete the application if you wish.)
2. FSA reviews the application for eligibility, repayment ability, security, and compliance with other regulations.
3. FSA approves and obligates the loan.
4. You receive a conditional commitment indicating funds have been set aside, and the loan may be closed.
5. You close the loan and advance funds to the farmer.
6. FSA issues a guarantee.

What Are the Loan Terms and Interest Rates?

Repayment terms vary according to the type of loan made, the collateral securing the loan, and the producer's ability to repay. Operating Loans are normally repaid within 7 years and Farm Ownership Loans cannot exceed 40 years.

The guaranteed loan interest rate and payment terms are negotiated between you and the producer. Interest rates on these loans may not exceed the rate charged your average farm customer. In addition, under the Interest Assistance Program, FSA will reimburse you 4 percent in exchange for your lowering the interest rate on loans to qualifying borrowers.

What Security Is Required?

Each loan must be adequately secured. Collateral for OL's consists of a first lien on crops to be produced and on livestock and equipment purchased or refinanced with loan funds. A lien may be taken on certain other chattel and real estate property, and an assignment usually will be taken on income such as that from a dairy enterprise. Collateral for Farm Ownership Loans may consist of real estate only or of a combination of real estate and chattels.

Is This Our Loan or an FSA Loan?

Guaranteed loans are your loan. You make the loan and service it to conclusion. If everything works well and the borrower is able to repay the loan, no taxpayers' money will be used except for administrative expenses. If a loan fails, and you suffer a loss, FSA will reimburse you with Federal funds under terms and conditions specified in the guarantee.

What Happens If the Loan Becomes Delinquent or the Borrower Defaults?

You must notify FSA when a borrower is 30 days overdue on a payment or if a loan is otherwise a problem. You are encouraged to work with a borrower to resolve any problems. If the loan cannot be restructured, you will be responsible for liquidating the account as agreed to by FSA. If the loan has been sold to a secondary market holder, the holder must concur with any restructuring, otherwise the holder will make demand upon you for payment. If you do not pay the holder, FSA will pay the holder. If FSA pays the holder, you must reimburse FSA within 180 days of the payment to the holder.

What Is the Percent of Guarantee?

For most loans, the maximum guarantee is 90 percent. The guarantee percentage will be determined by FSA based on the risk involved

in the loan. You may receive a 95 percent guarantee when:

1. The purpose of the loan is to refinance direct FSA farm loan program debt. If only a portion of the loan is for this purpose, a weighted percentage of guarantee will be used.
2. The loan is made to a beginning farmer to participate in the Beginning Farmer Downpayment Loan Program.

Is There a Guarantee Fee?

For most loans, FSA charges a guarantee fee of 1 percent of the guaranteed portion of the loan. This fee may be passed on to the borrower. The guarantee fee is waived for:

- Interest assistance loans
- Loans where more than 50 percent of the loan funds are used to pay off direct FSA loan debt
- Loans in conjunction with a Downpayment Farm Ownership Loan program for beginning farmers or qualifying state beginning farmer program. This fee waiver does not extend to all beginning farmers.

What Is the Certified Lender Program?

The purpose of the Certified Lender Program (CLP) is to minimize the time required for experienced lenders to obtain responses to requests for guarantee for OL's/lines of credit, permit maximum use of the lender's own forms and permit the lender to certify compliance rather than providing supporting documentation. Lenders with a proven ability to process and service FSA guaranteed loans will be given greater flexibility.

Advantages to CLP Lenders

- Much less paperwork to submit to FSA
- More flexibility to use your own forms and processes

- Approval of loans within 14 days — faster in most cases
- 5-year line of credit (regular lenders are limited to 3 years)

Attaining CLP Status

Lenders who meet all of the following criteria may be granted CLP lender status for a 5-year period:

- Provide evidence of being an “Eligible Lender.”
- Loan losses — net of recovery — do not exceed CLP Loss Rate.
- Have closed a minimum of 10 FSA guaranteed farm ownership, soil and water, and operating loans/lines of credit and 5 of these loans within the past 2 years.
- Have the capacity to process and service FSA guaranteed operating loans/lines of credit.
- Certify that the person designated to process and service FSA guaranteed loans has attended FSA loan processing and servicing training within the previous 12 months or will attend training within the next 12 months.
- Agree to send the designated person from each of the lender's offices responsible for processing guaranteed loans for annual training.
- Agree to use forms acceptable to FSA for processing, analyzing, securing, and servicing FSA guaranteed loans/lines of credit. If not previously submitted, copies of financial statements, cash-flow plans, loan agreements, analysis sheets, security agreements, and promissory notes should be submitted with the request for CLP status.
- Maintain an acceptable financial strength rating as reported by a bank rating service.

Is There a Secondary Market for Guaranteed Loans?

The secondary market for USDA guaranteed loans is a key feature of the guaranteed lending program. You are permitted to sell the guaranteed portion of the loan to an interested party. The interested party then becomes the “holder” of the loan, but you retain the loan servicing responsibilities. Investors who are looking for safe investments with a reasonable return are attracted to these loans because of the Government’s “Full Faith and Credit” guarantee against default.

Advantages of using the secondary market

The existence of the secondary market is a strong inducement for lenders to get involved in guaranteed lending. Selling the guaranteed portion of the loan to other investors offers a number of advantages, including:

- **Reduced Interest Rate Risk.** You can transfer risk of interest rate increases on the guaranteed portion of a fixed-rate loan.
- **Increased Liquidity.** Selling the loan on the secondary market frees the funds for additional lending or investing activity.
- **Increased Lending or Investing Capabilities.** Since the guaranteed portion of the loan is generally not applied against a bank’s lending limit, you can expand your lending capabilities.
- **Increased Return on Investment.** The sale of the guaranteed portion of the loan in the secondary market increases the lender’s overall return on the investment. Each time a bank sells a guaranteed portion, it generally retains a servicing fee.
- **Additional Loan Terms.** You may offer loan terms such as intermediate and longer term fixed rates than you would normally offer without the secondary market.

FSA Guaranteed Programs

Program	Maximum Loan Amount
Guaranteed Operating	\$400,000
Guaranteed Farm Ownership	\$300,000

Where To Go for More Information

Further information and applications for the loan programs described in this brochure are available at local FSA county offices. These are usually listed in telephone directories in the section set aside for governmental/public organizations under "U.S. Department of Agriculture, Farm Service Agency."

For general information about the Farm Service Agency and its programs, contact:

USDA FSA Public Affairs Staff
1400 Independence Avenue, SW, STOP 0506
Washington, DC 20250-0506
Telephone: (202) 720-5237

For specific information on loan programs, contact:

USDA FSA Loan Making Division
1400 Independence Avenue, SW, STOP 0522
Washington, DC 20250-0522
Telephone: (202) 720-1632

Information on FSA can also be found on the FSA home page at www.fsa.usda.gov

Rates and Terms

Use of Proceeds

From 1 to 7 years

Rates not to exceed those charged lenders' other farm customers

4% interest reduction available for those unable to repay at regular rates

- Purchase livestock, poultry, equipment, feed, seed, farm chemicals and supplies

- Soil and water conservation

- Refinance debts with certain limitations

Up to 40 years

Rates not to exceed those charged lenders' other farm customers

- Purchase land

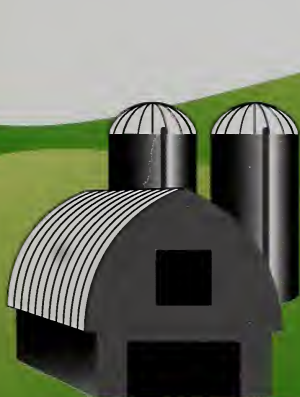
- Construct buildings or other improvements

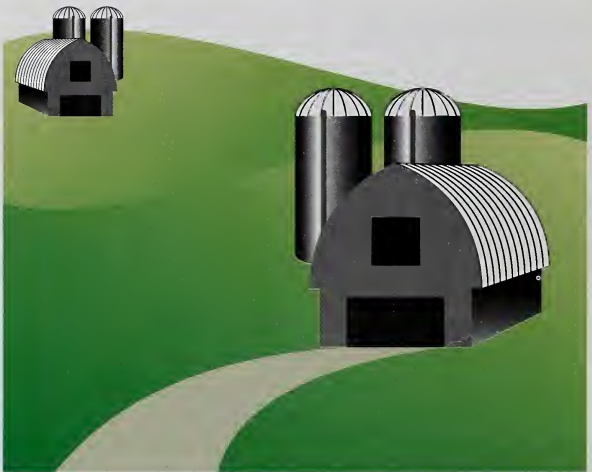
- Soil and water conservation

- Refinance debts

Guarantee Fees

Regular Guaranteed Loans	1%
Interest Assistance Loans	0%
Loans where at least 50% of funds are used to refinance FSA Direct Loans	0%
Loans to beginning farmers participating in Downpayment Program or qualifying state program	0%





The United States Department of Agriculture (USDA) prohibits discrimination in its programs on the basis of race, color, national origin, sex, religion, age, disability, political beliefs and marital or family status. (Not all prohibited bases apply to all programs.) Persons with disabilities who require alternative means for communication of program information (braille, large print, audiotape, etc.) should contact USDA's TARGET Center at (202) 720-2600 (voice and TDD).

To file a complaint, write the Secretary of Agriculture, U.S. Department of Agriculture, Washington, D.C. 20250, or call 1-800-245-6340 (voice) or (202) 720-1127 (TDD). USDA is an equal employment opportunity employer.